

Financial Statements
Livingston County Community
Mental Health Authority

Howell, Michigan

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Livingston County Community Mental Health	County Livingston
Audit Date 9/30/04	Opinion Date 11/30/04	Date Accountant Report Submitted to State: 3/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE & CO., PC, CPA'S			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Accountant Signature <i>Phil Post, CPA</i>		ZIP 48801	Date 3/25/05

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INDEPENDENT AUDITOR'S REPORT

Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Livingston County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2004, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2004 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-III, and budgetary comparison information on page 21 – 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 30, 2004

MANAGEMENT'S DISCUSSION and ANALYSIS

**Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis**

The management of Livingston County Community Mental Health Authority (LCCMHA) presents the following overview and analysis of financial activities during the past fiscal year. LCCMHA was created as a Mental Health Authority effective October 1, 1998.

Overview of Financial Statements

Two types of financial statements are provided: government-wide Statements and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of LCCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. LCCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. LCCMHA funds include the General Fund and the Children's Pooled Funding Initiative fund. Both of these funds are considered "Governmental Funds".

Governmental funds have a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

Comparison with Prior Year

Fiscal Year 2003 revenues and expenses compared to Fiscal Year 2004 follows:

	2003	2004	\$ Change	% Change
General Fund				
Revenues	\$16,229,050	\$16,155,134	\$(73,916)	-0.5%
Expenses	15,936,217	15,818,694	(117,523)	-0.7%
Children's Pooled Funding Initiative Fund				
Revenues	171,031	166,276	\$(4,755)	-2.8%
Expenses	314,653	291,333	\$(23,320)	-7.4%

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	Balance at 10-1-2003	Increase (Decrease)	Balance at 9-30-04
General Fund Balance			
Restricted	\$316,250	\$(180,359)	\$135,891
Unrestricted	1,793,270	233,944	2,027,214
Children's Pooled Funding Initiative Fund Balance			
Restricted	556,122	\$(4,246)	551,876
Totals	\$2,665,642	\$49,339	\$2,714,981

The general fund unrestricted fund balance increased 13% while restricted fund balance decreased 57%. The majority of this substantial decrease in restricted fund balance is because \$164,112 of Risk Management funds was transferred to the Michigan Department of Community Health and Washtenaw County Mental Health Authority during the 2004 fiscal year.

Livingston County Community Mental Health Authority
Financial Statements for Fiscal Year Ended September 30, 2004
Management's Discussion and Analysis

About Fiscal Year 2004

Fiscal Year 2004 saw great strides in the elimination of administrative redundancies by the four-county affiliation that officially began on October 1, 2002. The four-county affiliation, called the CMH Partnership of Southeastern Michigan, consists of Lenawee, Livingston, Monroe, and Washtenaw counties. While LCCMHA receives Medicaid dollars through a Prepaid Inpatient Health Plan (PIHP) configuration, General Fund operations remain unchanged.

The four-county affiliation is in the process of implementing a state of the art web-based electronic record; encounter and electronic billing, along with other centralized computer functions. Once implemented by all four counties the affiliation will be able to respond rapidly and consistently to changes to the electronic record, as well as, reporting and other regulatory changes. The eventual goal is for the affiliation to eliminate the need for a paper record, and have all providers' record and document service encounters utilizing the system.

Over the past year LCCMHA has been reviewing the programs it operates directly or by contract to determine if they present the best value for the delivery of essential services. The unit cost of each program has been compared to the cost of our affiliate members' programs as well as statewide cost. Many factors, along with the unit cost, were considered in the review so that each program value could be best determined. If a program appeared to be an outlier, a more in depth review was undertaken. This process will eventually produce a recommendation that is thorough and results in an orderly process of shifting services, if deemed necessary, to the method that produces the best outcomes for the service provided.

About the Future

The State of Michigan is still projecting a budget shortfall both in Fiscal Year 2005 and 2006. In addition, Medicaid and General Fund funding streams are being scrutinized and revised at this time. It is currently unknown how further cuts and these funding stream revisions will affect LCCMHA. Therefore, we continue to operate very modestly. Client services are of the utmost priority as we continue to look for ways to decrease expenditures. The Community Mental Health system, with its roots in the community it serves, is uniquely qualified to provide effective services to the people in its community. With the affiliation structure currently in place, and with the continuous process of improvement, each CMHSP within our affiliation has strengthened its ability to provide effective cost competitive service that meets the regulatory requirements.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Livingston County Community Mental Health Authority
Statement of Net Assets
September 30, 2004 and 2003

	Governmental Activities	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$3,054,920	\$4,309,401
Accounts receivable, net	22,086	6,397
Due from other governmental units	1,291,886	484,674
Prepaid items	135,891	146,554
Total current assets	4,504,783	4,947,026
Noncurrent assets		
Capital assets - depreciable, net	1,137,465	1,142,799
Total assets	5,642,248	6,089,825
Liabilities		
Current liabilities		
Accounts payable	639,828	819,403
Deferred revenue	336,572	214,612
Due to other governmental units	678,975	1,034,033
Accrued wages and other payroll liabilities	134,427	213,336
Current portion of long term debt	10,318	6,708
Total current liabilities	1,800,120	2,288,092
Noncurrent liabilities		
Notes payable	22,249	18,994
Compensated absences	160,112	169,414
Total noncurrent liabilities	182,361	188,408
Total liabilities	1,982,481	2,476,500
Net Assets		
Invested in capital assets, net of related debt	1,104,898	1,117,097
Restricted for grant	551,876	556,122
Restricted for risk management	-	169,696
Unrestricted	2,002,993	1,770,410
Total net assets	\$3,659,767	\$3,613,325

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Activities
For the year ended September 30, 2004 and 2003

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2003
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$16,270,659</u>	<u>\$10,969,474</u>	<u>\$5,289,995</u>	<u>(\$11,190)</u>	<u>(\$54,078)</u>
General revenues					
Unrestricted investment earnings				<u>61,941</u>	<u>81,996</u>
Total general revenues and contributions				<u>61,941</u>	<u>81,996</u>
Change in net assets				50,751	27,918
Net assets - beginning of year				3,613,325	3,585,407
Prior period adjustment				<u>(4,309)</u>	<u>-</u>
Net assets - end of year				<u>\$3,659,767</u>	<u>\$3,613,325</u>

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Livingston County Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2004 and 2003

MAJOR FUNDS

	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds	2003
Assets				
Cash and cash equivalents	\$2,494,785	\$560,135	\$3,054,920	\$4,309,401
Accounts receivable, net	20,086	2,000	22,086	6,397
Due from other governmental units	1,291,886	-	1,291,886	484,674
Prepaid items	135,891	-	135,891	146,554
Total assets	<u>\$3,942,648</u>	<u>\$562,135</u>	<u>\$4,504,783</u>	<u>\$4,947,026</u>
Liabilities				
Accounts payable	\$630,003	\$9,825	\$639,828	\$819,403
Deferred revenue	336,572	-	336,572	214,612
Due to other governmental units	678,975	-	678,975	1,034,033
Accrued wages and other payroll liabilities	133,993	434	134,427	213,336
Total liabilities	<u>1,779,543</u>	<u>10,259</u>	<u>1,789,802</u>	<u>2,281,384</u>
Fund balances				
Restricted for grant	-	551,876	551,876	556,122
Reserved for prepaid items	135,891	-	135,891	146,554
Restricted for risk management	-	-	-	169,696
Unreserved	2,027,214	-	2,027,214	1,793,270
Total fund balances	<u>2,163,105</u>	<u>551,876</u>	<u>2,714,981</u>	<u>2,665,642</u>
Total liabilities and fund balances	<u>\$3,942,648</u>	<u>\$562,135</u>	<u>\$4,504,783</u>	<u>\$4,947,026</u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 To Net Assets of Governmental Activities on the Statement of Net Assets
 For the year ended September 30, 2004

Total fund balance - governmental funds	\$2,714,981
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	1,762,850
Deduct: accumulated depreciation	(625,385)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Note payable	(32,567)
Deduct: Compensated absences	(160,112)
Net assets of governmental activities	<u>\$3,659,767</u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the year ended September 30, 2004 and 2003

MAJOR FUNDS

	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds	2003
REVENUES				
State grants				
MDCH - General fund contract	\$3,837,822	-	\$3,837,822	\$3,731,513
Other state grants	115,211	-	115,211	86,257
Total state grants	3,953,033	-	3,953,033	3,817,770
Federal grants	687,833	-	687,833	718,632
Contributions - local units				
County appropriations	600,468	-	600,468	600,468
Charges for services				
Medicaid - Washtenaw CMH	10,277,099	-	10,277,099	10,500,632
Medicaid - other	163,362	-	163,362	131,040
Other charges for services	371,013	\$158,000	529,013	504,498
Total charges for services	10,811,474	158,000	10,969,474	11,136,170
Interest and rents				
Interest	53,665	8,276	61,941	81,996
Rents	1,626	-	1,626	-
Total interest and rents	55,291	8,276	63,567	81,996
Other revenue				
Contributions	316	-	316	574
Miscellaneous	46,719	-	46,719	44,471
Total other revenue	47,035	-	47,035	45,045
Total revenues	16,155,134	166,276	16,321,410	16,400,081

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2004 and 2003

MAJOR FUNDS

	General Fund	Children's Pooled Funding Initiative	Total Governmental Funds	2003
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel costs	\$6,997,521	\$131,828	\$7,129,349	\$7,379,809
Operating expenditures	8,706,293	159,505	8,865,798	8,815,297
Capital outlay	114,880	-	114,880	55,764
Total expenditures	15,818,694	291,333	16,110,027	16,250,870
Revenues over (under) expenditures	336,440	(125,057)	211,383	149,211
Other financing sources (uses)				
Operating transfers in	123,869	244,680	368,549	391,726
Operating transfers out	(244,680)	(123,869)	(368,549)	(391,726)
Operating transfers out - other governmental units	(164,112)	-	(164,112)	-
Loan proceeds	15,887	-	15,887	26,820
Debt payments	(9,510)	-	(9,510)	(351,388)
Total other financing sources (uses)	(278,546)	120,811	(157,735)	(324,568)
Excess of revenues and other sources over expenditures and other uses	57,894	(4,246)	53,648	(175,357)
Fund balance, October 1	2,109,520	556,122	2,665,642	2,840,999
Prior period adjustment	(4,309)	-	(4,309)	-
Fund balance, September 30	\$2,163,105	\$551,876	\$2,714,981	\$2,665,642

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the year ended September 30, 2004

Net change in fund balances - total governmental funds	\$53,648
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	114,880
Deduct: depreciation expense	(120,214)
Fixed assets acquired by long term loans are shown as an expenditure and other financing source in the governmental funds. The other financing source must be removed from the statement of activities; principal payments are applied to the lease liability; interest expense is recognized as it accrues.	(15,887)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	9,022
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: decrease in accrual for compensated absences	9,302
Change in net assets of governmental activities	<u>\$50,751</u>

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Livingston County Community Mental Health Authority
Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Livingston County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

In June of 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The significant changes included in Statement No. 34 include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority’s activities
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2002.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Livingston County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority’s reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2004, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

The Authority reports the following major governmental funds:

General Fund - This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Children's Pooled Funding Initiative Fund - This fund accounts for the financial activities of the child and family collaborative funding arrangement providing wraparound services to the residents of Livingston County.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Livingston County Community Mental Health Authority
Notes To Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Land	Not depreciated
Buildings and Improvements	27 Years
Equipment	5 – 10 Years
Furniture and Fixtures	15 Years
Computers	5 Years
Automobiles	4 Years

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Risk Management are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the Authority incurred expenditures in excess of the amounts appropriated as shown on pages 21 - 23 of this report.

Livingston County Community Mental Health Authority
Notes To Financial Statements

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At year end, the carrying amount of deposits for the Authority was \$3,053,895, and the bank balance was \$3,480,612. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining, was uninsured and uncollateralized. The Authority also maintains \$1,025 of petty cash at various locations.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2004	2003
State of Michigan – Medicaid	\$163,362	\$141,244
Various Federal Grants	154,597	79,954
Washtenaw CMH	837,999	222,172
Michigan Department of Community Health – 1998 / 1999 Audit Appeal	64,780	-
Other Governmental Units	71,148	41,304
Totals	\$1,291,886	\$484,674

Livingston County Community Mental Health Authority
Notes To Financial Statements

Changes in Fixed Assets

A summary of changes in the general fixed assets account group is as follows:

Assets	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$115,000			\$115,000
Buildings and Improvements	1,017,151	\$22,247		1,039,398
Equipment	121,819			121,819
Furniture and Fixtures	48,910			48,910
Computers	180,813	76,746		257,559
Automobiles	164,277	15,887		180,164
Sub-totals	1,647,970	114,880		1,762,850
Accumulated Depreciation	505,171	120,214		625,385
Totals	\$1,142,799	\$(5,334)	\$-	\$1,137,465

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due To Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2004	2003
DCH – Cost Settlement	\$122,892	\$745,719
DCH – Transfer of Internal Service Fund	57,773	-
Washtenaw CMH – Transfer of Internal Service Fund	106,339	-
Washtenaw CMH – Medicaid Cost Settlement	224,261	133,801
Michigan Employment Security Commission	163,240	134,314
Other Governmental Units	4,470	20,199
Totals	\$678,975	\$1,034,033

Livingston County Community Mental Health Authority
Notes To Financial Statements

Accrued Wages And Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Long-Term Debt – Compensated Absences

Authority policy allows full time employees to accumulate vacation days at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 20 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. As of September 30, 2004 and 2003, this liability was \$160,112 and \$169,414, respectively.

Long-Term Debt

The Authority entered into an installment contract for the purchase of a vehicle during the 2003 fiscal year. Payments are due monthly in the amount of \$558.73, including interest at the rate of 0% per annum. As of September 30, 2004, the balance of this installment contract is \$18,997.

The Authority entered into an installment contract for the purchase of a vehicle during the 2004 fiscal year. Payments are due monthly in the amount of \$400.67, including interest at the rate of 9.5% per annum. As of September 30, 2004, the balance of this installment contract is \$13,570.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2004 are as follows, including total interest payments of \$2,857:

Year Ended September 30,	Amount
2005	\$11,513
2006	11,513
2007	10,395
2008	2,003
2009	-

Livingston County Community Mental Health Authority
Notes To Financial Statements

Below are the changes in the general long-term debt during the September 30, 2004 fiscal year:

Liability	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004
Compensated Absences	\$169,414	\$-	\$9,302	\$160,112
Vehicle Installment Contracts	25,702	15,887	9,022	32,567
Totals	\$195,116	\$15,887	\$18,324	\$192,679

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

Fund Equity Reserves

A portion of the fund balance at September 30 has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of the fund balance at September 30 has been reserved equal to the excess of revenues over expenses for the Children's Pooled Funding Initiative.

A portion of the fund balance at September 30 has been reserved equal to the amount that must be used for risk management.

Michigan Department of Community Health – Compliance Audit / Prior Period Adjustment

The Authority was subjected to a MDCH contract compliance audit for the year beginning October 1, 1998 and ending September 30, 1999. On October 10, 2001, the MDCH finalized this compliance audit by requesting an \$85,489 payback from the Authority. The majority of this liability relates to the Authority expensing fixed assets purchased during the year in question instead of depreciating them. On December 29, 2004, the Circuit Court for the County of Livingston ruled against the MDCH, reducing the original liability of \$85,489 down to \$20,709. This liability was liquidated during the 2004 year, resulting in a prior period adjustment of \$4,309. The additional \$16,400 was recognized as a liability in a previous fiscal year.

Livingston County Community Mental Health Authority
Notes To Financial Statements

Operating Leases

Livingston County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. The following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining non-cancelable lease terms as of September 30, 2004:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2005	\$200,540
2006	202,285
2007	203,799
2008	200,186
2009	201,468
2010-2014	1,016,888
2015-2019	1,025,060
2020-2024	1,019,250
2025-2029	194,750

Retirement System

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Livingston County Community Mental Health Authority
Notes To Financial Statements

During the fiscal year ended September 30, 2004, the Authority's contributions totaling \$457,122 were made in accordance with contribution requirement determined by the MERS. The Authority was considered a new member in the system for the 1998 fiscal year. For fiscal years ending prior to September 30, 1998, the Authority's employees participated in the MERS through the County of Livingston's plan.

As of December 31, 2003, the net assets available for benefits at actuarial value were \$6,335,494. The total actuarial accrued liability at this date was \$7,504,178, leaving an unfunded actuarial accrued liability of \$1,168,684.

Money Purchase Pension Plan - Effective January 1, 1999, the Authority voted to join an optional retirement plan instead of the Social Security system. All employees of the Authority are eligible to participate in this Plan.

Nationwide Life Insurance Company is the firm used to invest plan funds. All employees contribute a mandatory 6.2% of their wages to this plan. Employer contributions are 5.69% of compensation. Under this plan, employees are immediately 100% vested in their account.

Risk Management

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability, property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority. Settled claims have not exceeded the amount of coverage in any of the past three years. There was no reduction in insurance coverage during the September 30, 2004 year.

The Authority's coverage limit is \$15,000,000 for liability and between \$10,000 to \$200,000,000 for property and crime. The contribution made by the Authority to the MMRMA was \$40,066 for the 2004 fiscal year.

REQUIRED SUPPLEMENTAL INFORMATION

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2004

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
State Grants				
MDCH - General fund contract	\$4,250,638	\$4,135,638	\$3,837,822	(\$297,816)
Other state grants	114,036	138,155	115,211	(22,944)
Total state grants	4,364,674	4,273,793	3,953,033	(320,760)
Federal grants	783,004	672,097	687,833	15,736
Contributions - local units				
County appropriations	600,470	600,470	600,468	(2)
Charges for services				
Medicaid - Washtenaw CMH	10,264,500	10,242,667	10,277,099	34,432
Medicaid - other	185,230	185,230	163,362	(21,868)
Other charges for services	337,509	398,883	371,013	(27,870)
Total charges for services	10,787,239	10,826,780	10,811,474	(15,306)
Interest and rents				
Interest	71,819	51,573	53,665	2,092
Rents	-	1,626	1,626	-
Total interest and rents	71,819	53,199	55,291	2,092
Other revenue				
Contributions	-	316	316	-
Miscellaneous revenues	-	47,927	46,719	(1,208)
Total other revenue	-	48,243	47,035	(1,208)
Total revenues	16,607,206	16,474,582	16,155,134	(319,448)

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2004

Expenditures	Budgeted Amounts		Variance Between Actual and Final Budget
	Original	Final	
Health & Welfare - Mental Health			
Personnel costs	\$7,218,415	\$7,218,415	\$220,894
Operating expenditures	9,144,111	9,142,907	436,614
Capital outlay	-	114,880	-
Total expenditures	16,362,526	16,476,202	657,508
Revenues over (under) expenditures	244,680	(1,620)	338,060
Other financing sources (uses)			
Operating transfers in	157,131	157,131	(33,262)
Operating transfers out	(244,680)	(244,680)	-
Operating transfers out - other governmental units	-	-	(164,112)
Loan proceeds	-	-	15,887
Debt payments	-	-	(9,510)
Total other financing sources (uses)	(87,549)	(87,549)	(190,997)
Excess of revenues and other sources over expenditures and other uses	157,131	(89,169)	147,063
Fund balance, October 1	2,109,520	2,109,520	-
Prior period adjustment	-	-	(4,309)
Fund balance, September 30	\$2,266,651	\$2,020,351	\$142,754

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
Children's Pooled Funding Initiative
For the year ended September 30, 2004

	Budgeted Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
Charges for services				
Local revenue	\$158,000	\$158,000	\$158,000	-
Total charges for services	158,000	158,000	158,000	-
Interest and rents				
Interest	8,200	8,200	8,276	\$76
Total revenues	166,200	166,200	166,276	76
Expenditures				
Health & Welfare - Mental Health				
Personnel costs	149,626	149,626	131,828	17,798
Operating expenditures	136,718	136,718	159,505	(22,787)
Capital outlay	-	-	-	-
Total expenditures	286,344	286,344	291,333	(4,989)
Revenues over (under) expenditures	(120,144)	(120,144)	(125,057)	(4,913)
Other financing sources (uses)				
Operating transfers in	244,680	244,680	244,680	-
Operating transfers out	(157,131)	(157,131)	(123,869)	33,262
Total other financing sources (uses)	87,549	87,549	120,811	33,262
Excess of revenues and other sources over expenditures and other uses	(32,595)	(32,595)	(4,246)	28,349
Fund balance, October 1	556,122	556,122	556,122	-
Fund balance, September 30	\$523,527	\$523,527	\$551,876	\$28,349

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTARY INFORMATION

Livingston County Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the year ended September 30, 2004 and 2003

Governmental Fund Types

	<u>General Fund</u>	
	<u>2004</u>	<u>2003</u>
Personnel costs		
Salaries and wages	\$5,193,735	\$5,407,933
Fringe benefits	<u>1,803,786</u>	<u>1,831,176</u>
Total personnel costs	<u><u>\$6,997,521</u></u>	<u><u>\$7,239,109</u></u>

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Supporting Schedule of Operating Expenditures
For the year ended September 30, 2004 and 2003

Governmental Fund Types

	<u>General Fund</u>	
	<u>2004</u>	<u>2003</u>
Operating Expenditures		
Professional and contracted services	\$3,042,015	\$2,937,627
Client medical / dental	25,957	30,995
Client supplies	71,636	77,062
Communications	128,682	132,517
Conferences	149,423	56,972
Insurance	67,599	225,517
Lease expense and utilities	654,953	650,568
Local funds contribution	251,232	251,232
Medication	59,864	31,762
Membership dues	10,701	10,469
Operating supplies and other	137,635	161,420
Repairs and maintenance	137,175	159,931
Residential services	3,743,444	3,651,783
Transportation	53,387	51,879
Travel	172,590	211,610
	<u>172,590</u>	<u>211,610</u>
Total operating expenditures	<u>\$8,706,293</u>	<u>\$8,641,344</u>

See Accompanying Notes To Financial Statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

We have audited the basic financial statements of the Livingston County Community Mental Health Authority as of and for the year ended September 30, 2004, and have issued our report thereon dated November 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Livingston County Community Mental Health Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Livingston County Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Livingston County Community Mental Health Authority, in a separate letter dated November 30, 2004.

This report is intended for the information of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & CO

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 30, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

Compliance

We have audited the compliance of the Livingston County Community Mental Health Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal programs for the year ended September 30, 2004. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 30, 2004

Livingston County Community Mental Health Authority
Schedule Of Expenditures Of Federal Awards
For The Year Ended September 30, 2004

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue At 9/30/2004	GPFS Federal Revenue Recognized	GPFS Page
Department of Health and Human Services								
Passed Through The State Of Michigan - Family Independence Agency								
Promoting Safe and Stable Families	93.556	SFSC 02-47001	-	\$14,238	\$15,736	\$1,498	\$15,736	
Passed Through The State Of Michigan - Family Independence Agency								
Temporary Assistance For Needy Families	93.558	CHPR 01-47001-4	\$55,412	\$45,264	\$53,372	\$8,108	\$53,372	
Passed Through The Michigan Department of Community Health								
Child Care and Development Block Grant	93.575	20041474	85,070	57,856	84,682	26,826	84,682	
Passed Through The Michigan Department of Community Health								
Block Grants for Community Mental Health Services	93.958	04 B1 MI CMHS	154,824	30,073	105,865	75,792	105,865	
	93.958	03-B1 MI CMHS-02	273,384	185,045	198,352	13,307	198,352	
				215,118	304,217	89,099	304,217	
Passed Through The Michigan Department of Community Health								
Medical Assistance Program	93.778	-	-	89,494	106,720	17,226	106,720	
Total Department of Health and Human Services				421,970	564,727	142,757	564,727	
Department of Labor								
Passed Through the County of Livingston Employment Service	17.207	SC-03-09-ES	131,321	111,266	123,106	11,840	123,106	
TOTALS				\$533,236	\$687,833	\$154,597	\$687,833	5

See Accompanying Notes To Financial Statements

Livingston County Community Mental Health Authority
Schedule Of Findings And Questioned Costs
Year Ended September 30, 2004

A. SUMMARY OF AUDIT RESULTS

The auditor's report expresses an unqualified opinion on the basic financial statements of the Livingston County Community Mental Health Authority.

There were no reportable conditions disclosed as a result of the audit of the basic financial statements.

No instances of noncompliance material to the basic financial statements of the Livingston County Community Mental Health Authority were disclosed during the audit.

There were no reportable conditions disclosed during the audit of the major federal award programs.

The auditor's report on compliance for the major federal award programs for the Livingston County Community Mental Health Authority expresses an unqualified opinion.

Audit findings relative to the major federal award programs for the Livingston County Community Mental Health Authority are reported in Part C of this report.

The programs tested as major programs are the following:

- Block Grants for Community Mental Health Services – CFDA # 93.958

The threshold for distinguishing Types A and B programs was \$300,000.

The Authority was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COST - MAJOR FEDERAL AWARD PROGRAMS AUDIT.

None.



MANAGEMENT LETTER

Board of Directors
Livingston County Community Mental Health Authority
Howell, Michigan

In planning and performing our audit of the financial statements for Livingston County Community Mental Health Authority for the fiscal year ended September 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 30, 2004, on the financial statements of Livingston County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail, perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 30, 2004

Perform a Fraud Risk Assessment

In light of the wave of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large companies. However, fraud occurs in companies of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in companies with 10,000 or more employees.

Whereas the highly publicized frauds at large public companies like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small companies one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Authority perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Authority's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

This assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Authority, its environment, and its processes. The fraud risk assessment process should consider the Authority's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the Authority have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.

Perform a Fraud Risk Assessment (continued)

- What assets of the Authority are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the Authority has a culture or environment that would enable management or individuals to rationalize committing fraud?

Once areas vulnerable to fraud have been identified, a review of the Authority's systems, procedures, and existing controls relating to the identified areas should be conducted. The Authority should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.

Perform a Fraud Risk Assessment (continued)

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of Work Performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the Authority to the extent possible.

When assessing the Authority's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the Authority may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

Review Payroll Records for Unusual Matters

Performing a careful review of the payroll register (that is, the schedule showing the calculation of gross pay, deductions, and net pay) and payroll check register can highlight several types of payroll fraud. We recommend that an appropriate person independent of the payroll department periodically make such a review, being alert for unusual matters that might suggest fraud, such as the following:

- Duplicate names or addresses.
- Names of former employees.
- Math errors (which may indicate diversion of payroll or payroll taxes).
- Unusual pay rates or numbers of hours worked.
- Factors that may indicate ghost employees.